

# Kentucky Teachers' Retirement System

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## BRIEF OVERVIEW



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Social Security and the  
Windfall Elimination  
Provision and  
Government Pension  
Offset

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**WEP/GPO**

## Kentucky Teachers' Retirement System



*Since 1938, KTRS has provided  
reliable retirement security for  
Kentucky's educators*

# Kentucky Teachers' Retirement System

## *A Brief History*

- In 1936, the University of Kentucky studied the possible need for a retirement system for teachers and concluded:
  - Teachers could not afford to retire.
  - School districts were faced with continued employment of teachers unable to perform effectively.
  - Teachers were not allowed to participate in Social Security.
  - Kentucky was finding it hard to attract and retain teachers.
- KTRS was established in 1938 and funded by the General Assembly in 1940.

# Background

- ❖ Anyone eligible for SS benefits who also receives a KTRS benefit is affected by WEP.
- ❖ Anyone eligible for spousal SS benefit who also receives a KTRS benefit is affected by GPO.
- ❖ Discuss how Social Security Benefits are calculated
- ❖ Discuss how WEP is applied.
- ❖ Discuss how GPO is applied
- ❖ Compare KTRS benefits and Social

# Social Security BASICS



## Average Indexed Monthly Earnings (AIME)

Year	Actual Earnings	X	Index Factors	=	Indexed Annual Earnings
1	18,367		2.86790		52,674
2	20,022		2.63092		52,676
3	22,037		2.39031		52,675
4	23,250		2.26558		52,675
5	24,383		2.16034		52,675
35+			} Uses High 35 Indexed		
			TOTAL		
			Divided by (35x12)	=	Average Indexed Monthly Earnings

# Social Security Basics

## 2012 FORMULA



	Average Indexed Monthly Earnings	Monthly Benefit
<div>Tier 1</div> <div>→</div>	90% [ \$0 - \$767 ] =	
<div>Tier 2</div> <div>→</div>	32% [ \$767 - \$4,624 ] =	
<div>Tier 3</div> <div>→</div>	15% [ \$4,624 & above ] =	
At full retirement age monthly benefit		\$

- Age 65 if born prior to 1938, age 67 if born 1960 and later
- 1943-1954....66 years

# Social Security Benefit

35 Years @ Full Retirement Age  
\$58,000 avg index salary / 4,833 AIME

$$\begin{array}{rcl} 90\% \times 767 & = & \$ 690 \\ 32\% \times 3,857 & = & 1,234 \\ 15\% \times \underline{209} & = & \underline{31} \\ 4,833 & & \$1,955/\text{monthly} \end{array}$$

Born before 1938:  
Reduced 20% age 62!  
Born between 1943 and 1954:  
Reduced 25% age 62!  
Born after 1960:  
Reduced 30% age 62!

$$\begin{array}{r} 1,955 \\ \times \underline{12} \\ \$23,460 \\ \text{vs } \$58,000 \end{array}$$

= 40.4%  
of AIME

## Social Security Full Retirement and Reductions by Age

Year of Birth	Full Retirement Age	Age 62 Reduction
1937 or earlier	65	20.00 %
1938	65 and 2 months	20.83 %
1939	65 and 4 months	21.67 %
1940	65 and 6 months	22.50 %
1941	65 and 8 months	23.33 %
1942	65 and 10 months	24.17 %
1943-1954	66	25.00 %
1955	66 and 2 months	25.84 %
1956	66 and 4 months	26.66 %
1957	66 and 6 months	27.50 %
1958	66 and 8 months	28.33 %
1959	66 and 10 months	29.17 %
1960 and later	67	30.00 %



## S S Benefit Examples – less than 35 years



35 Years @ 58,000  
Months in 35 years  
Average Monthly Earnings  
  
90% of first \$767  
32% > 767 < 4,624  
15% over \$4,624  
Monthly Benefit @ FRA

\$ 2,030,000  
420  
4,833  
  
690  
1,234  
31  

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\$ 1,955



27 Years @ 58,000  
Months in 35 years  
Average Monthly Earnings  
  
90% of first \$767  
32% > 767 < 4,624  
Monthly Benefit @ FRA

\$ 1,566,000  
420  
3,728  
  
690  
947  

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\$ 1,637



# What is the Windfall Elimination Provision?



- Social Security benefit is weighted toward lower paid workers
- Work is assumed to be over 35 years (hence... contributions for 35 years)
- Government workers not paying into Social Security would on average not pay 35 years
- WEP adjustment reduces the benefit for government workers who don't pay into the Social Security System for 30 years

# Social Security Basics

## FORMULA



		Average Indexed Monthly Earnings	Monthly Benefit
<b>Tier 1</b> ↳	90%* Subject to *WEP	[ \$0 - \$767 ] =	
<b>Tier 2</b> ↳	32%	[ \$767 - \$4,624 ] =	
<b>Tier 3</b> ↳	15%	[ \$4,624 & above ] =	
	At full retirement age monthly benefit		\$

- Age 65 if born prior to 1938, age 67 if born 1960 and later
- 1943-1954....66 years

## 90% First Tier Calculation Subject to WEP

Years in SS			
10...20	=	40%	Substantial Earnings
21		45	
22		50	
23		55	
24		60	
25		65	
26		70	
27		75	
28		80	
29		85	
30		90	\$20,475....2012

# *What is WEP Impact?*

Year	First Tier Social Security Calculation is Reduced					Monthly WEP Impact
30	90%	x	767	=	\$690	-0-
29	85		767		651	39
28	80		767		613	77
27	75		767		575	115
26	70		767		536	154
25	65		767		498	192
24	60		767		460	230
23	55		767		421	269
22	50		767		383	307
21	45		767		345	345
20 or less	40		767		306	384

KTRS Medical benefits help wipe out WEP!!

# Social Security Benefit (Without WEP)

20 Years in Social Security System  
\$58,000 avg index salary / 2,762 AIME

$$\begin{array}{rcl} 90\% \times 767 & = & \$ 690 \\ 32\% \times \underline{1,995} & = & \underline{638} \\ 2,762 & & \$1,328/\text{monthly} \end{array}$$

Born before 1938:

Reduced 20% age 62!

Born between 1943 and 1954:

Reduced 25% age 62!

Born after 1960:

Reduced 30% age 62!

This would be the benefit at  
full retirement age.

Draw at 62 – benefit would be  
\$996/month w/ 25% reduction

# Social Security Benefit (WEP Applies)

20 Years in Social Security System  
\$58,000 avg index salary / 2,762 AIME

$$40\% \times 767 = \$ 306$$

$$32\% \times \frac{1,995}{2,762} = \frac{638}{2,762}$$

$$2,762 \quad \$ 944/\text{monthly}$$

Born before 1938:

Reduced 20% age 62!

Born between 1943 and 1954:

Reduced 25% age 62!

Born after 1960:

Reduced 30% age 62!

This would be the benefit at full  
retirement age.

Draw at 62 – benefit would be  
\$708 a month w/ 25% reduction



## What is the Government Pension Offset?

- Law affects Spouse's or Widow(er)'s Benefits
- The offset will reduce the amount of SS spouse or widow(er)'s benefit by two-thirds of the amount of government pension.



# Why is There an Offset?



- SS spouse's benefits provide income for those who have little SS benefits on their own.
- Dual-Entitlement – When both husband and wife are eligible to draw SS benefits the spouse is entitled to the **HIGHER** of the benefit on earned on their own account **OR**  $\frac{1}{2}$  of their spouse's benefit. **NOT BOTH.**



## Dual Entitlement

- Bill collects SS benefit of \$1,400 per month. Wife, Mary, is potentially eligible for up to \$700 per month.
- Mary is eligible for SS benefit of \$600 per month.
- Mary will receive higher of two benefits or \$700

## Government Pension Offset



- Tom collects SS benefit of \$1,400 per month. Wife, Nancy, draws a KTRS benefit of \$600 per month.
- Based on Tom SS account, Nancy would have been eligible for spousal benefit of \$700 and KTRS benefit without GPO
- Nancy will receive \$900 (KTRS + \$300 SS)

# Benefit Comparison

- Average social security retirement benefit is \$1,234. (December 2011)
- Maximum monthly social security benefit is \$2,513 at full retirement age. (2012)
- Average KTRS retirement benefit is \$2,850. (June 2012)
- Maximum annual KTRS benefit is 100% of last salary (plus medical benefits).

# Comparison of Retirement Conditions

	Social Security	KTRS
Years of Service Vesting	10	5
Years to Retire	N/A	27 or 5 @ age 55
Age to Retire	<u>Year of Birth:</u> after 1960 - age 67 1955-'59—scaled between 66-67 1943-'54-age 66 1938-'43-scaled between 65-66 1937 and before-age 65 or 62 w/ discount	Any age with 27 years of Service or; At age 60 with 5 years — no discount or; At age 55 with 5 years — a discount of 5% for each year below age 60 or each year under 27 years.

# Comparison of Retirement Conditions

	Social Security	KTRS
Benefits based on Salary of:	<ul style="list-style-type: none"> <li>• High 35*</li> <li>• Capped @ \$106,800 (2010 and 2011)</li> <li>* Indexed</li> </ul>	<ul style="list-style-type: none"> <li>• High “3” or High “5”</li> <li>• Capped @ \$245,000(2010) \$245,000 (2011)</li> </ul>
Formula	<p>-Weighted toward lower paid workers and based on 35 years of service</p> <p>90% of first \$761 AIME*</p> <p>32% of next \$761 – \$4,586</p> <p>15% of amount over \$4,586</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><i>*AIME – Average Indexed Monthly Earnings</i></p> </div>	<p>- Weighted toward years of service – more years = greater benefit</p> <p>3.0% of FAS for service over 30 years for retirements after June 30, 2004</p> <p>2.5% of FAS per year of service after 1983</p> <p>2.0% of FAS per year of service before 1984</p>

# KTRS Benefit Calculations

**1/3 of Retirees retire @ age 52 with 27 years / Average Salary - \$45,500**  
**Initial KTRS Benefit - \$28,892.50 / KTRS benefit COLA - assume 2.5%**

AGE	KTRS Benefit 1 <sup>st</sup> Retirement Account	Return to Work Salary	Social Security Benefit	KTRS Benefit 2 <sup>nd</sup> Retirement Account
52	28,893	25,000	-	-
53	29,615	26,000	-	-
54	30,355	27,040	-	-
55	31,114	28,121	-	-
56	31,892	29,246	-	-
57	32,689	30,416	-	-
58	33,506	31,633	-	-
59	34,344	32,898	-	-
60	35,203	34,214	-	-
61	36,083	35,583	-	-
62	36,985		2,952	8,237

**Retiree works in  
Social Security  
covered position for  
10 years.**  
**If the retiree earns  
the indicated  
salaries, the  
projected  
retirement benefit  
at age 62 is  
\$306 per month or  
\$3,672 per year.**

**However, if the retiree earns these same salaries over these ten years in a KTRS  
Position while building a second retirement account, the benefit under the second  
retirement account would be \$686 per month or \$8,237 per year.**

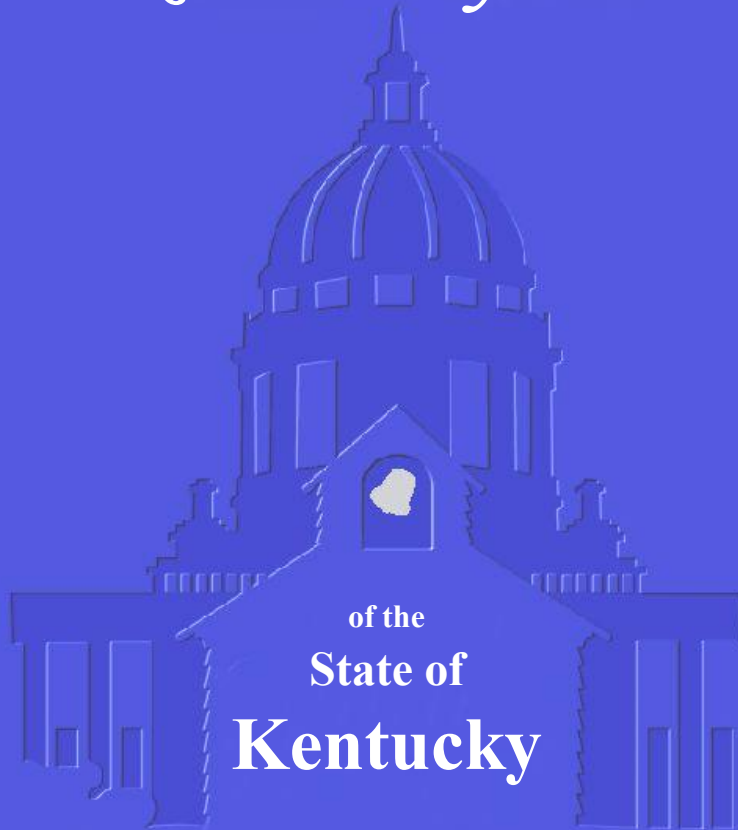
## *In Summary . . .*



- SS system is not designed to be relied on for sole source of retirement.
- KTRS can be relied on for sole source of retirement.
- WEP impact is not significant enough to effect retirement planning.
- KTRS benefits mitigate the effect of WEP.



*Teachers'  
Retirement System*



of the  
State of  
**Kentucky**

Teachers' Retirement System  
of the State of Kentucky

***Our Members  
Come First!***

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Reach us at . . .

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***Protecting & Preserving Teachers' Retirement Benefits***